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NOTES

WASHINGTON NOTES

BREAK-DOWN OF THE ALDRICH-VREELAND ACT
REFORM OF BANK EXAMINATIONS
THE ADVANCE IN RAILROAD RATES
PREPARING FOR TARIFF REVISION
WORK OF OUR COMMISSION IN FRANCE
THE FISCAL SITUATION

Although Secretary Cortelyou, immediately after passage of the law, prepared the machinery for putting the Aldrich-Vreeland Currency Act into operation, he has thus far failed in securing the active participation of any groups of banks. Immediately after the adjournment of Congress, the Treasury authorities referred to the law officers of the department such sections of the act as seemed to be doubtful. Under the instructions of these officers a supply of notes for each National Bank was prepared through the Bureau of Engraving and Printing, and was held for issue in case of "emergency," while the wording upon all national bank-notes henceforward issued was ordered so changed as to omit any reference to the exclusive use of national bonds as security for circulation. Secretary Cortelyou further designated his own office (rather than that of the Comptroller of the Currency), as the source of all regulations controlling "national currency associations" organized under the law. By-laws and forms governing such associations were drafted and the information contained therein was sent to each national bank (*Treasury Department Circular, No. 39*). The circular and forms called for action by boards of directors prior to the participation of any national bank in organizing a currency association, and also surrounded the action of boards of managers in control of such associations with various safeguards. Eight groups of banks certified a desire to organize themselves under the law, but of these only one (those composing the clearing-house of Washington, D. C.) has finally carried through an organization—and that only in a confessedly perfunctory way. The obstacle which has deterred the banks from proceeding with vigor, apart from the unwillingness to incur the high cost of the new currency, has been

the apparent lack of any provision whereby they could withdraw from an association when they had once joined it. As soon as this difficulty was raised, the subject was referred by Secretary Cortelyou to his legal advisers and the latter promptly gave it as their opinion that there existed no provision whereby a given bank could withdraw from the association to which it belonged. A later opinion by the Attorney-General of the United States has taken the view that a bank may withdraw if it has the joint and unanimous consent of all other banks in its association, but even this has made the conditions of membership too onerous to permit of further organization. There has been no application for the issue of notes either through such associations or upon the strength of non-national bonds directly deposited with the Treasury. Other funds have been abundant while the demand for loans has been relatively slack.

Some long-needed reforms have been introduced into the national banking system by Comptroller of the Currency Murray, who actively assumed duty toward the end of September. For some years past, the national system has seemed to be less and less amenable to suitable oversight and control from Washington, owing to its growth in number of banks, and the inefficiency of methods of examination. Mr. Murray has attempted to introduce better conditions in several ways: (1) He has summoned conventions of national bank examiners in Washington and Chicago, and has there set forth the need for better inspection, suggesting to the examiners the probability of a change in personnel should no immediate improvement be noted in their work. This is leading to a material increase in the stringency of examinations, while the reports prepared by the examiners' conventions have afforded material for an important revision of the book of instructions to national bank examiners. (2) In conference with the principal receivers who are now conducting the affairs of failed banks throughout the country, Mr. Murray has urged changes of method which he believes will shorten the average duration of receiverships (now between four and five years) by perhaps 25 per cent.; and he has directly cut the salary and expenses of each receiver by from 50 to 33 $\frac{1}{3}$ per cent. (3) Eleven "examiners districts" have been formed and a force of bank examiners organized in each of these districts, for the purpose of exchanging ideas with reference to over-extended

lines of credit and irregular operations which may have come to the attention of any one of the men. (4) Orders have been given for the quarterly examination of all national banks (numbering about 1,000) that have heretofore laid themselves open to criticism for failure to comply with the national act. Examinations have hitherto occurred semi-annually. (5) Notice has been served upon banks known to be in the habit of falsifying their sworn statements of condition, that further offenses of the same sort will lead to criminal prosecutions under the national banking law. Comptroller Murray will probably ask Congress to provide legislation much more stringently limiting the kinds of business in which national banks may engage and requesting that examiners be placed upon a regular salary basis instead of being paid by fees as is now the custom. While the reforms which have already been introduced will do something to overcome the irregularities noted in the national system, it is not likely that they can be fully successful without the legislation referred to. The organization of national banks themselves upon a district plan, for the purpose of maintaining mutual oversight as to one another's transactions is regarded as an essential element in the process of strengthening the system.

General effort to increase railroad rates has been among the most characteristic features of the economic situation during the past summer. The roads have apparently felt themselves driven to this action by reason of the heavy falling-off in their revenues subsequent to the panic of last fall. While some roads have been able to make a fair showing in their reports, it is contended that they have succeeded in doing so only through over-rigid economy and through the suspension of betterments. Announcements of a general rate increase have in part been based upon the action of the federal government in intervening to keep up railroad wages, but after conferences among the managers in New York and at other points it has now been determined to postpone the policy of general increase until schedules can be properly adjusted and public opinion can be tested. The original idea of a horizontal advance of 10 per cent. on all rates has proved to be too crude for adoption and has consequently been discarded. Meanwhile material rate advances have been put into effect after due notice to the Interstate Commerce Commission, most of them becoming operative about August 1. These increases have been most marked in two parts of the country

—the southeastern and southwestern states. In the former, rates on a great number of commodities passing from Chicago and Mississippi River crossings to points in Georgia, Alabama, and adjacent territory have been advanced by an amount estimated to average from 10 to 20 per cent. In the latter, rates to Texas and Arkansas "common points" from Chicago and Mississippi River crossings have been advanced by amounts estimated to average from 12 to 25 per cent. These rate increases have been promptly met by public protests in the sections affected and have given rise to what are now officially known as the "southeastern and southwestern rate cases." Testimony in the former was taken at Atlanta, Georgia, during the last two weeks in September and testimony in the latter was in part heard at St. Louis during the last week of September. In both cases, an unprecedentedly long record has been compiled, involving not only data on rate comparisons, but argument relating to questions of capitalization and costs of operation for the considerable number of railways affected. The cases differ from any hitherto presented to the Interstate Commerce Commission under the "Hepburn Act" in that they affect whole sections of the country and large groups of commodities. It is thus impossible to pass upon the legitimacy of the advance in rates by mere comparison with other rates as has been the quite general practice of the Commission in the past. The cases are so stated as practically to compel the acceptance of some relationship between valuation and rates on the part of the Interstate Commerce Commission, or the development of some other definite criterion for judging of the justice of railway charges.

Preparations for tariff revision have been undertaken by the Senate Finance Committee and by the House Ways and Means Committee, in accordance with resolutions passed by the two houses at the close of the congressional session last June. Chairman Payne of the Ways and Means Committee has directed a considerable amount of official material compiled for the use of the committee. This has included (1) an investigation of foreign bounties and export taxes by the Bureau of Manufactures. (2) An analysis of decisions of the Board of General Appraisers and of court decisions affecting duties or classification of goods by the Customs Division of the Treasury. (3) A study of foreign cost of production, to be carried on under the supervision of the Bureau of

Foreign Trade Relations of the State Department through our consuls and consuls-general. (4) A study of conditions of appraisal and valuation by the law officers of the Customs Service at New York. In addition the Bureau of Manufactures at the request of Mr. Payne has sent to Europe two special agents charged with the duty of ascertaining foreign costs in specified lines of production. These agents have been equipped with sets of questions compiled by domestic manufacturers interested in the particular kinds of goods that were under investigation. At Auburn, New York, a "tariff bureau" for the compilation and arrangement of all of these data has been organized by Mr. Payne. The Senate Finance Committee, on the other hand, has organized itself in certain sub-committees. One of these, charged with the study of customs administration has held a series of hearings in New York and Washington at which the working of the present Customs Administrative Act has been fully discussed. These hearings were nominally for the purpose of ascertaining how far the Customs Administrative Act might safely be amended along lines suggested in the German tariff treaty of last winter. Another sub-committee has been working parallel with the Ways and Means Committee, obtaining data regarding revision from substantially the same sources. Certain manufacturers throughout the country have also been asked to express their ideas as to the rates of duty on foreign goods competing with leading commodities. The result of work thus far, as well as of the discussion of this subject in the current campaign, has been greatly to strengthen the opinion that little or no intention of reducing tariff rates by any substantial percentage exists. The changes in duty intended by the "leaders" are "readjustments" rather than "revision."

One aspect of the forthcoming tariff revision is closely touched by the work of a "tariff commission" sent to France during the past summer. This commission, headed by Assistant Secretary J. B. Reynolds, of the Treasury Department, was intrusted with three distinct duties. It was (1) to investigate the grounds for complaint against prevailing methods of tariff administration in France and in the United States and to report how these could be removed. (2) An analysis of trade conditions on either side was to be made, with a view of indicating the basis for a reciprocity treaty. (3) Regulations governing the importation of French canned foods

and medicinal preparations into the United States and of American meats, both canned and dressed, into France, were also to be discussed. The latter duty was imposed upon the commission as an after-thought, because of friction which had arisen over the importation of French goods under the Food and Drugs Act during the past spring and winter. This commission held sessions jointly with a commission of three representing the French government, in Paris, during July and August, and has now submitted a report to the State Department. It found its work somewhat hampered by previously existing conditions. All that could be conceded to Germany through Executive order was granted by the German commission which reported in the spring of 1907 and these same concessions have been later voluntarily extended to France at the instance of the State Department, and with no material concessions in return. The Tariff Commission of this year, therefore, practically found itself unable to take any positive forward step except upon minor matters relating to imported foods; and has been obliged to deal in its report chiefly with desired legislation and the need for action intended to meet the upward revision of the French tariff schedules now in progress. French manufacturers have become extremely dissatisfied because of the inroads that are being made upon their field by some American goods and are not inclined to remain content even with the maximum tariff duties upon American products which have been applied by the French government for several years past. The experience of the French Tariff Commission, like that of its German predecessor, has emphasized in the minds of administrators the necessity of legislation which will afford a basis for negotiation, if we are desirous of avoiding still higher and more sharply discriminating rates upon our goods entering European countries.

Partly as a result of serious deficit conditions, and partly from a desire to avoid the necessity of action during an election period, the Treasury Department has as yet failed to deal with the refunding problems which presented themselves at the opening of the new fiscal year 1908-9. The situation by which Secretary Cortelyou was confronted on July 1 was that of an impending deficit almost unprecedented in amount, due to the extravagant appropriations of Congress during the past winter, the necessity of refunding or redeeming about \$64,000,000 of Spanish War 3 per cent. bonds which

fell due August 1, the requirement that about \$15,000,000 of 3 per cent. certificates of indebtedness issued during the panic last autumn be redeemed at the expiration of one year from the date of issue, and that provision be made for recouping the Treasury on canal account through the issue of further Panama bonds. At the beginning of August Secretary Cortelyou had in banks to the credit of the Treasury approximately \$119,000,000. A free cash balance in the Treasury amounting to about \$70,000,000 was immediately available, some \$45,000,000 having been called in from the banks and added to the free cash balance early in July. Up to the opening of the year no positive indication of policy had been afforded by the Treasury. During the month of July very large expenditures were incurred in spite of efforts to hold the outlay down, and much larger outlays were anticipated. About \$25,000,000 represented the loss of cash for the first month of the year owing to excess of expenditures over receipts, and the shortage would have been at least \$5,000,000 greater, had it not been for a large payment on Pacific railroad account. This situation rendered the redemption of Spanish War bonds practically impossible without further withdrawals of cash from the banks which was inadvisable at the opening of a crop-moving season. The result has been a complete suspension of Treasury policy with reference to the indebtedness. The Spanish War 3 per cents. have continued to draw interest at that rate instead of being cut to 2 per cent. by turning them into 2 per cent. consols. The delay in refunding and redeeming is part of the price that must be paid for the excessive expenditures authorized by Congress during the last session. Had it not been for these, the surplus in the Treasury at the opening of the year would have been ample to dispose of the whole or a substantial part of the maturing bonds. As things stand, the redemption of the \$15,000,000 of certificates issued last fall for use as security behind national bank currency is practically the only debt redemption to be anticipated this year.